



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL
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CITY COUNCIL STAFF REPORT

Meeting: March 2, 2021

Subject

Accept the Mid-Year Financial Report for Fiscal Year 2020-21; consider approving a Budget Modification increasing appropriations by \$32,626,692 and revenues by \$34,509,156.

Recommended Action

1. Accept the City Manager's Mid-Year Financial Report for FY 2020-21.
2. Adopt a draft resolution 21-XXX approving Budget Modification #2021-122 increasing appropriations by \$32,626,692 and revenues by \$34,509,156.

Background

On June 16, 2020, the City Council adopted the Fiscal Year (FY) 2020-21 Budget, a \$110,591,225 spending plan for the City of Cupertino. On November 17, 2020 Council received an update on the City's spending plan as part of the City Manager's First Quarter Financial Report, which revised the budget to account for encumbrances of \$5,775,664 and carryover appropriations of \$83,404,472 from FY 2019-20. These carryover appropriations included \$35 million in capital projects, \$20 million for Vallco Town Center, and \$8 million for Lawrence Mitty Park. Encumbrances represent funds for obligations related to unfilled purchase orders or unfilled contracts that are rolled over from one year to the next until those obligations are fulfilled or terminated. Carryover appropriations are unencumbered funds for unfinished projects that are carried over for use in the following fiscal year in order to complete those projects.

In the first two quarters of FY 2020-21, Council approved \$3,990,830 in additional appropriations mostly related to First Quarter Adjustments (\$1 million for McClellan Road Bikeway Improvement Phase 3, \$213,300 for Homestead/De Anza Signal Upgrade, \$175,000 for plan-check engineer back-fill, \$175,000 for Westport legal services) as well as \$250,000 for short-term rental enforcement, \$735,259 for additional COVID-19-related projects, \$200,000 for the Wolfe Road homeless encampment, and \$286,000 for the Recology franchise agreement.

This resulted in an amended budget of \$203,762,191. These FY 2020-21 budget adjustments are summarized in the following table:

Mid-Year Financial Report Summary of Budget Adjustments by Fund

Fund	FY 20-21 Adopted	Carryovers	Encumbrances	Adjustments Approved in 1st-2nd Quarter	FY 20-21 Amended Budget as of December 31, 2020
General	\$ 80,528,492	\$ 26,980,460	\$ 3,176,881	\$ 1,544,777	\$ 112,230,610
Special Revenue	7,778,561	19,458,782	555,369	1,047,239	28,839,951
Debt Service	3,169,138	-	-	-	3,169,138
Capital Projects	3,762,723	35,073,216	1,732,364	1,000,000	41,568,303
Enterprise	7,679,246	1,713,928	120,218	398,814	9,912,206
Internal Service	7,673,065	178,086	190,832	-	8,041,983
Total All Funds	\$ 110,591,225	\$ 83,404,472	\$ 5,775,664	\$ 3,990,830	\$ 203,762,191

Discussion

The Mid-Year Financial Report focuses on the status of the City's budget as of December 31, 2020 and recommends adjustments to ensure the budget reflects the City's current revenue outlook and is responsive to changing spending priorities. As shown in the chart below, \$32,626,692 in budget adjustments are being requested. Included in the requested budget adjustments is a \$5,000,000 transfer of excess fund balance to the Capital Reserve in accordance with the City's Reserve and One Time Use Policy. The majority of these budget adjustment requests pertain to the City's recent refinancing of its Certificates of Participation on September 29, 2020 which resulted in approximately \$494,000 in annual General Fund savings or almost \$5 million over the next 10 years. Additionally a \$2 million contribution to the Section 115 Pension Trust is recommended. If approved, the City's new spending plan would total \$236,388,883 across all funds.

Mid-Year Financial Report Summary by Fund

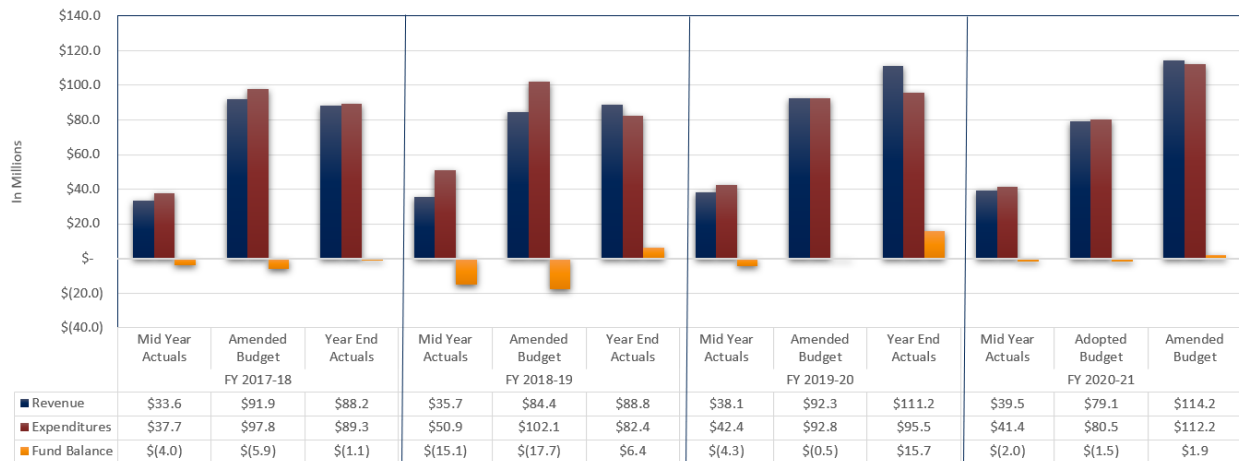
Fund	Amended Budget as of December 31, 2020	Requested Mid-Year Adjustments	Year-End Projections
General	\$ 112,230,610	\$ 5,076,800	\$ 117,307,410
Special Revenue	28,839,951	-	28,839,951
Debt Service	3,169,138	27,549,892	30,719,030
Capital Projects	41,568,303	-	41,568,303
Enterprise	9,912,206	-	9,912,206
Internal Service	8,041,983	-	8,041,983
Total All Funds	\$ 203,762,191	\$ 32,626,692	\$ 236,388,883

A projected increase to unassigned fund balance in the amount of \$1,882,464 across all funds would occur as summarized in the table below.

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Community Development	\$ 50,000	\$ -	\$ (50,000)	Density Bonus Update
100 General Fund	Community Development	\$ 25,000	\$ -	\$ (25,000)	Code Enforcement
100 General Fund	Innovation & Technology	\$ 1,800	\$ -	\$ (1,800)	Scavenger Hunt App for Safe Routes to Schools
100 General Fund	Non-Departmental	\$ 5,000,000	\$ -	\$ (5,000,000)	Transfer out to Capital Reserve
100 General Fund	Non-Departmental	\$ -	\$ 492,832	\$ 492,832	Transfer in from Debt Service Fund (Refinancing)
100 General Fund	Non-Departmental	\$ -	\$ 8,597,620	\$ 8,597,620	Sales tax estimate increase
100 General Fund	Non-Departmental	\$ -	\$ (5,500,000)	\$ (5,500,000)	Transient occupancy tax estimate decrease
TOTAL GENERAL FUND		\$ 5,076,800	\$ 3,590,452	\$ (1,486,348)	
DEBT SERVICE FUND					
365 Public Facilities Corporation	Non-Departmental	\$27,279,118	\$ -	\$ (27,279,118)	Other Financing Use - Escrow Principal Payment
365 Public Facilities Corporation	Non-Departmental	\$ 270,774	\$ -	\$ (270,774)	Bond Issuance Cost
365 Public Facilities Corporation	Non-Departmental	\$ -	\$22,040,000	\$ 22,040,000	Other Financing Source - Principal Issuance
365 Public Facilities Corporation	Non-Departmental	\$ -	\$ 3,878,704	\$ 3,878,704	Other Financing Source - Outstanding Premium
365 Public Facilities Corporation	Non-Departmental	\$ (215,000)	\$ -	\$ 215,000	Reduction in Principal (Due to Refinancing)
365 Public Facilities Corporation	Non-Departmental	\$ (277,832)	\$ -	\$ 277,832	Reduction in Interest (Due to Refinancing)
365 Public Facilities Corporation	Non-Departmental	\$ 492,832	\$ -	\$ (492,832)	Transfer Savings to General Fund
TOTAL DEBT SERVICE FUND		\$27,549,892	\$25,918,704	\$ (1,631,188)	
CAPITAL PROJECTS FUNDS					
429 Capital Reserve	Non-Departmental	\$ -	\$ 5,000,000	\$ 5,000,000	Transfer in from the General Fund
TOTAL CAPITAL PROJECTS FUNDS		\$ -	\$ 5,000,000	\$ 5,000,000	
TOTAL ALL FUNDS		\$32,626,692	\$34,509,156	\$ 1,882,464	

General Fund Update

4-Year Comparison of Revenues, Expenditures and Changes to Fund Balance



The City's General Fund historical revenue, expenditures and fund balance demonstrates the City has historically budgeted the use of fund balance. This means the General Fund's amended budget estimated appropriations to exceed revenues. This use was not due to a structural deficit but due to the transfer out of excess fund balance from the General Fund to the Capital Reserve in accordance with the City's One-time use policy. Due to the City's encumbrance and budget carryover process, excess fund balance resulted as part of the year end actuals.

Revenue

As of mid-year, General Fund revenue is tracking at \$39.5 million or 3% higher than the same time last year due to changes in the City's in various revenue sources as shown in the following table.

Comparison of FY 2019-20 and FY 2020-21 General Fund Mid-Year Revenues

Revenue Category	Mid-Year 2020	Mid-Year 2021	Variance	% Change
05 - Sales tax	\$ 12,082,134	\$ 16,772,159	\$ 4,690,025	39%
10 - Property tax	7,430,263	7,887,124	456,862	6%
15 - Transient occupancy	4,248,918	879,019	(3,369,899)	-79%
20 - Utility tax	1,332,066	1,291,056	(41,010)	-3%
25 - Franchise fees	694,529	627,465	(67,064)	-10%
30 - Other taxes	669,321	1,704,385	1,035,064	155%
35 - Licenses and permits	3,301,123	1,951,667	(1,349,457)	-41%
40 - Use of money and property	1,092,095	891,724	(200,371)	-18%
45 - Intergovernmental revenue	167,979	1,022,927	854,948	509%
50 - Charges for services	5,800,799	5,250,331	(550,469)	-9%
55 - Fines and forfeitures	145,735	53,744	(91,990)	-63%
60 - Miscellaneous	1,006,780	1,048,256	41,476	4%
65 - Transfers in	12,000	15,000	3,000	25%
70 - Other financing sources	\$ 164,663	\$ 87,567	\$ (77,096)	-47%
Grand Total	\$ 38,148,406	\$ 39,482,423	\$ 1,334,017	3%

Sales Tax received as of mid-year was \$4.7 million (or 39%) more than last year due to increases in the City's business-to-business industry group and its County Pool allocation share. This is directly related to COVID-19 and State-wide efforts to convert to a remote work environment. Additionally, with Shelter-in-Place orders in effect, there was a reduction in brick and mortar retail sales which resulted in an increase in on-line sales that also increased the City's tax base. HdL, the City's sales tax consultant, recently provided a report on sales tax performance during the period July-September 2020. Restaurants and Hotels, General Consumer Goods, Fuel and Service Stations, Building and Construction, and Autos and Transportation were down 46.9%, 18.4%, 54.3%, 48.8%, and 25.5%, respectively. This poor performance was vastly overshadowed by strong performance in the business to business and pool allocations. While similar trends are continuing in the fourth quarter (September-December 2020), this performance is considered to be a one-time experience. While the State continues to roll out the vaccine and the economy recovers, we can anticipate the City's major industry groups balance the scale back to normalcy. As of December 31, 2020, the City's sales tax is approximately 80% of the annual budget.

Effective October 1, 2019, companies such as Amazon, eBay and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client's Sales and Use tax. The Marketplace provision was part of AB 147 which was adopted to implement California's approach to the U.S. Supreme Court decision in *South Dakota v. Wayfair Inc.* AB 147 requires out-of-state retailers with annual combined sales of \$500,000 or more to collect and remit their

state's sales and use tax from its customers. Applying the \$500,000 threshold to the total of all the third-party transactions that facilitators process for their clients, it is hoped to produce moderate gains in previously uncollected revenues for the state, cities, counties, and local transaction tax districts. Facilitator tax remittances from merchandise inventoried in California will be allocated to specific jurisdictions while receipts from deliveries outside of the State will be distributed via the pools based on respective share of the pool. As of the last reporting quarter Cupertino's share of the County pool was 10.3%.

The City's audited financial statements for FY 19-20 included a change in the estimate for its sales tax accrual. This resulted in a two month shift in timing for when monthly sales tax receipts were recorded. This change in estimate moved \$9 million of sales tax receipts from FY 20-21 to FY 19-20. We will see this change in estimate and reclassification have a direct and positive impact to the General Fund's fund balance. Even with the change in estimate, FY 20-21 sales tax performance is far exceeding budgetary estimations. Staff are recommending an increase to the estimated sales tax from \$20,910,889 to \$29,508,509, an increase of \$8,597,620 or 41%. This revised estimate is aligned with HdL's (sales tax consultant) projection for FY 20-21.

Property Tax revenue has come in higher than the same time last year by \$457,000 (or 6%). Residential use values increased \$801.5 million (or 5%) and represented 44% of all growth experienced in the City. Commercial properties posted an increase of \$169 million or a year-over-year increase of 2.3%. Unsecured assets in Cupertino increased \$782 million (or 47.6%) and were primarily attributable to assets owned by Apple Inc. Overall, the FY 20-21 property tax revenues are anticipated to increase by 6.95% over the previous fiscal year. The County Assessor's Office has informed the City that a 1.036% inflator will be applied to the 2021-22 roll. This is the first time in recent history that an inflator below the maximum 2% consumer price index (CPI) will be used. There is still uncertainty around post-pandemic impacts to property values, such as expanded and/or permanent telecommuting. Despite the uncertainty, the City's property tax base remains strong and HdL is currently projecting property taxes over the next five years as presented below:

FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
\$27,839,030	\$28,745,930	\$29,848,859	\$31,013,953	\$32,238,690

Transient Occupancy Tax continued to be impacted by COVID-19 and the shelter-in-place orders. As of December 31, 2020, the City recognized \$879,000 in transient occupancy tax, which represents 12% of the total amount budgeted in FY 20-21. It also represents a decrease of 79% over the Mid-Year point of FY 2019-20. While the City anticipates

moderate recovery on a monthly basis as the vaccine continues to roll out, much of the transient occupancy tax's recovery will be driven on shelter-in-place orders and business' short and long-term decisions to bring their employees back to the work place. Staff are currently estimating a 3-4 year period before full recovery is achieved. Staff are also recommending a decrease to the annual amount of transient occupancy tax expected for FY 20-21 from \$7,500,000 to \$2,000,000, a decrease of \$5,500,000 or 73%.

Utility Tax is down approximately \$41,000 (or 3%) mainly due to decreases in utility revenue coming from Silicon Valley Clean Energy Authority over the previous fiscal year.

Other Taxes have increased by approximately \$1 million (or 155%) primarily due to a construction tax received from PSI Inc. for a public storage facility.

Franchise Fees have decreased by \$67,100 (or 10%) primarily due to a decrease in Recology franchise fees collected.

Licenses and Permits decreased by \$1.3 million (or 41%) due to a one-time \$1.4 million permit fee for Vallco Town Center received in FY 19-20.

Use of Money and Property decreased by \$200,000 (or 18%) due to decreased interest earnings from the City's investment portfolio.

Intergovernmental Revenue has increased by \$855,000 (or 509%) due to CARES Act funding received in the amount of \$735,259.

Charges for Services have decreased by \$550,000 (or 9%) driven mainly by decreases in cost allocation charges. Additionally, charges for services experienced decreases in Parks & Recreation service fees that were offset by increases in Planning fees.

Fines and Forfeitures have decreased \$92,000 (or 63%) primarily due to fewer citations administered in the current year due to COVID-19 and shelter-in-place orders.

Miscellaneous revenue has increased by \$41,000 (or 4%) due primarily to an increase to an ongoing donation from Apple Inc. to fund additional law enforcement services.

Transfers In have increased by \$3,000 (or 25%) due to a transfer in from the Tree Fund.

Other Financing Sources is down \$77,000 (or 47%) due to a reduction in refundable deposit administrative fees collected over the previous fiscal year.

Expenditures

As of mid-year, overall expenditures in the General Fund are down by \$1 million (or 2%) when compared to the same time last year due to budget reduction strategies that were implemented as part of the FY 20-21 Adopted Budget. The following table shows the differences between General Fund expenditures as of the mid-year in the current fiscal year and the prior fiscal year:

Comparison of FY 2019-20 and FY 2020-21 General Fund Mid-Year Expenditures

Expenditure Category	Mid-Year 2020	Mid-Year 2021	Variance	% Change
05 - Employee compensation	\$ 8,767,818	\$ 8,829,205	\$ 61,387	1%
10 - Employee benefits	3,770,254	4,218,645	\$ 448,391	12%
15 - Materials	2,621,548	1,921,595	\$ (699,953)	-27%
20 - Contract services	10,888,901	10,293,908	\$ (594,993)	-5%
25 - Cost allocation	4,893,239	5,236,770	\$ 343,532	7%
30 - Capital outlays	-	23,470	\$ 23,470	N/A
31 - Special projects	852,748	658,758	\$ (193,990)	-23%
45 - Transfer out	10,539,557	10,148,689	\$ (390,868)	-4%
50 - Other financing uses	95,957	101,433	\$ 5,476	6%
Grand Total	\$ 42,430,022	\$ 41,432,474	\$ (997,549)	-2%

Salary and Benefits increases are approximately \$510,000 (or 4%). Compensation increases are due primarily to labor negotiations approved by Council on July 16, 2019. Increases in salary, driven by cost of living adjustments and equity adjustments, can be anticipated for the span of the negotiation term ending June 30, 2022. These increases were offset by increases due to vacancy savings and savings through attrition. Benefit increases were primarily due to retirement, health, and workers' compensation costs. As part of the budget reduction strategies in FY 20-21, savings through attrition in the amount of \$800,000 are anticipated and current year-end projections are aligned.

Materials costs are down approximately \$700,000 (or 27%) due primarily to the budget reduction strategies put in place in FY 20-21. The strategy called for approximately \$670,000 in total materials savings and current year-end projections are aligned.

Contract Services have decreased approximately \$595,000 (or 5%) due primarily to the budget reduction strategies put in place in FY 20-21. The strategy called for approximately \$1 million in total contract services savings and current year-end projections are aligned.

Cost Allocation increases are approximately \$344,000 (or 7%) due primarily to increases in I&T and Human Resources charges.

Capital Outlay costs are up approximately \$23,000, due to capitalizable facilities costs that were not incurred in the previous fiscal year.

Special Projects decreases are approximately \$194,000 (or 23%) due to fluctuations in one-time expenditures. Additionally, as part of the budget reduction strategy implementation, savings of \$500,000 was anticipated and current year-end projections are aligned.

Transfers Out decreases are approximately \$391,000 (or 4%) and are due to fluctuations in operating subsidies received from the General Fund as part of the annual budget process.

Other Financing Uses have increased slightly due to refundable deposit on-call contracts for Community Development Department.

All Other Funds Update and Year End Projections

Revenue

As of mid-year, revenue in all other funds is tracking at \$21.1 million (or 44%) lower than the same time last year due primarily to an overall reduction in transfers from the General Fund to the Capital Improvement Program as a result of a decrease in Capital Projects in FY 20-21 compares to FY 19-20.

Revenue Category	Mid-Year 2020	Mid-Year 2021	Variance	% Change
30 - Other taxes	\$ 271,501	\$ 263,532	\$ (7,969)	-3%
40 - Use of money and property	787,109	544,912	(242,197)	-31%
45 - Intergovernmental revenue	1,644,959	1,706,607	61,648	4%
50 - Charges for services	5,221,710	4,227,676	(994,034)	-19%
55 - Fines and forfeitures	7,243	3,923	(3,320)	-46%
60 - Miscellaneous	3,518,419	2,042,549	(1,475,869)	-42%
65 - Transfers in	26,244,557	12,138,138	(14,106,419)	-54%
70 - Other financing sources	192,360	156,140	(36,220)	-19%
Grand Total	\$ 37,887,859	\$ 21,083,478	\$ (16,804,381)	-44%

Other Taxes decreased approximately \$8,000 (or 3%) remaining relatively consistent over the previous fiscal year.

Use of Money and Property decreased by approximately \$242,000 (or 31%) due to decreased interest earnings from the City's investment portfolio compared to the previous fiscal year.

Intergovernmental Revenue increased by approximately \$62,000 (or 4%) due primarily to an increase in our Transportation Fund collections of Vehicle Registration Fees, Gas Tax, and SB1 Road Maintenance and Rehabilitation funding.

Charges for services decreased approximately \$994,000 (or 19%) primarily due to a reduction in Youth, Teen, and Recreation and Sports Center compared to the previous fiscal year.

Fines and forfeitures decreased approximately \$3,000 (or 46%) due to a decreased volume in citations administered over the prior year.

Miscellaneous revenue decreased approximately \$1.5 million (or 42%) due primarily to an Apple Grant received to fund various CIP projects for bikeways, trails, and sidewalks in FY 19-20.

Transfers In decreased approximately \$14.1 million (or 54%) due to a reduction in new Capital Improvement Program projects in FY 20-21 that would ordinarily require a transfer out of the Capital Reserve.

Other financing sources decreased approximately \$36,000 (or 19%) due to a reduction in proceeds received from the sale of vehicles and equipment that had reached their useful lives.

Expenditures

As of mid-year, overall expenditures are tracking at \$19.9 million (or 39%) lower than the same time last year due primarily to decreases in transfers out and contract services.

Expenditure Category	Mid-Year 2020	Mid-Year 2021	Variance	% Change
05 - Employee compensation	\$ 2,284,933	\$ 2,187,881	\$ (97,053)	-4%
10 - Employee benefits	1,457,873	1,592,793	134,920	9%
15 - Materials	769,283	890,282	120,998	16%
20 - Contract services	3,228,861	1,435,189	(1,793,672)	-56%
25 - Cost allocation	1,492,657	1,095,270	(397,387)	-27%
30 - Capital outlays	4,536,976	6,286,263	1,749,287	39%
31 - Special projects	2,931,208	2,348,076	(583,131)	-20%
40 - Debt services	-	1,726,694	1,726,694	N/A
45 - Transfer out	15,717,000	2,004,449	(13,712,551)	-87%
Grand Total	\$ 32,418,791	\$ 19,856,853	\$ (12,561,938)	-39%

Salary and Benefits increases are approximately \$38,000 (or 1%). Compensation decreases are due primarily to a reduction in part-time compensation due to COVID-19 and vacancy savings through attrition. Benefit increases were primarily due to retirement, health, and workers' compensation costs. As part of the budget reduction strategies in FY 20-21, savings through attrition in the amount of \$800,000 are anticipated and current year-end projections are aligned.

Materials have increased approximately \$121,000 (or 16%) and is due to COVID-19 grant expenditures in the City's Community Development Block Grant Special Revenue Fund.

Contract Services have decreased approximately \$1.8 million (or 56%) due, but not limited to, decreases in the Recology franchise agreement and decreased services provided at the Sports Center throughout construction and COVID-19.

Cost Allocation decreased approximately \$397,000 (or 27%) due primarily to increases in Innovation & Technology, Human Resources, and Finance charges.

Capital Outlays increased approximately \$1.7 million (or 39%) due to a number of projects progressing including, but not limited to, the Library Expansion and the acquisition of Lawrence Mitty Park.

Special Projects decreased approximately \$583,000 (or 20%) due to decreases in annual asphalt project spending.

Debt Service increased approximately \$1.7 million due to the refinancing of the City's Certificates of Participation.

Transfers Out decreased \$13.7 million (or 87%) due to a reduction in new Capital Improvement Program projects in FY 20-21 that would ordinarily require a transfer out of the Capital Reserve.

Budget Adjustment Requests

As of the mid-year a few departments are requesting budget adjustments to ensure they end the year within budget appropriations. The recommended adjustments are summarized in the table below:

Fund	Department	Expense	Revenue	Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Community Development	\$ 50,000	\$ -	\$ (50,000)	Density Bonus Update
100 General Fund	Community Development	\$ 25,000	\$ -	\$ (25,000)	Code Enforcement
100 General Fund	Innovation & Technology	\$ 1,800	\$ -	\$ (1,800)	Scavenger Hunt App for Safe Routes to Schools
100 General Fund	Non-Departmental	\$ 5,000,000	\$ -	\$ (5,000,000)	Transfer out to Capital Reserve
100 General Fund	Non-Departmental	\$ -	\$ 492,832	\$ 492,832	Transfer in from Debt Service Fund (Refinancing)
100 General Fund	Non-Departmental	\$ -	\$ 8,597,620	\$ 8,597,620	Sales tax estimate increase
100 General Fund	Non-Departmental	\$ -	\$ (5,500,000)	\$ (5,500,000)	Transient occupancy tax estimate decrease
TOTAL GENERAL FUND		\$ 5,076,800	\$ 3,590,452	\$ (1,486,348)	
DEBT SERVICE FUND					
365 Public Facilities Corporation	Non-Departmental	\$27,279,118	\$ -	\$ (27,279,118)	Other Financing Use - Escrow Principal Payment
365 Public Facilities Corporation	Non-Departmental	\$ 270,774	\$ -	\$ (270,774)	Bond Issuance Cost
365 Public Facilities Corporation	Non-Departmental	\$ -	\$22,040,000	\$ 22,040,000	Other Financing Source - Principal Issuance
365 Public Facilities Corporation	Non-Departmental	\$ -	\$ 3,878,704	\$ 3,878,704	Other Financing Source - Outstanding Premium
365 Public Facilities Corporation	Non-Departmental	\$ (215,000)	\$ -	\$ 215,000	Reduction in Principal (Due to Refinancing)
365 Public Facilities Corporation	Non-Departmental	\$ (277,832)	\$ -	\$ 277,832	Reduction in Interest (Due to Refinancing)
365 Public Facilities Corporation	Non-Departmental	\$ 492,832	\$ -	\$ (492,832)	Transfer Savings to General Fund
TOTAL DEBT SERVICE FUND		\$27,549,892	\$25,918,704	\$ (1,631,188)	
CAPITAL PROJECTS FUNDS					
429 Capital Reserve	Non-Departmental	\$ -	\$ 5,000,000	\$ 5,000,000	Transfer in from the General Fund
TOTAL CAPITAL PROJECTS FUNDS		\$ -	\$ 5,000,000	\$ 5,000,000	
TOTAL ALL FUNDS		\$32,626,692	\$34,509,156	\$ 1,882,464	

Community Development - Code Enforcement – The majority of code enforcement cases are usually resolved by the responsible property owner after an administration citation or a threat of a citation is given. \$25,000 is needed to abate code enforcement cases that cannot be mitigated through the normal enforcement process.

Community Development - Density Bonus – Density Bonus is a State law to allow additional market rate units certain incentives, concessions, and waivers for residential projects with 5 or more units that provide affordable units. The City has a conforming Density Bonus ordinance that implements this State law. The requested \$50,000 in contract services will assist in updating this ordinance in accordance with the City Work Program’s affordable housing strategies item.

Innovation & Technology – Scavenger Hunt App for Safe Routes to School – With Cupertino students likely not returning to school campuses until the 2021-22 school year, Cupertino Safe Routes to School is trying to identify creative ways to encourage physical activity while students continue to study virtually. The mission is to create a safer environment for Cupertino students and families to actively travel to and from school. This project aligns because it will encourage physical activity and teach students important cyclist and pedestrian safety skills. This application (app) will include 250 player credits to use in a three-month period. The project cost is \$1,800 and will be considered an annual on-going project cost.

Non-Departmental Certificates of Participation Refinancing – On September 29, 2020, the City's 2020A Certificates of Participation (2020 COPs) were successfully sold in order to refund the City's 2012 Certificates of Participation for debt service savings. The refunding generated net present value savings of approximately \$3.14 million, 11.61% of refunded par and a True Interest Cost of 0.72%. Savings to the City's General Fund amounts to approximately \$494,000 per year for the next 10 years, or almost \$5 million in total savings. This budget request will account for the sources and uses of funds that were used to facilitate this transaction. The sources and uses listed below are extracted from the Official Statement and correspond with the budget request.

ESTIMATED SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of Certificate proceeds:

<i>Sources of Funds</i>	
Principal Amount of Certificates	\$ 22,040,000.00
Original Issue Premium	3,878,703.75
2012 Certificates Reserve Fund	<u>1,631,187.40</u>
Total Sources	<u>\$ 27,549,891.15</u>
<i>Uses of Funds</i>	
Escrow Fund	\$ 27,279,117.67
Costs of Issuance ⁽¹⁾	<u>270,773.48</u>
Total Uses	<u>\$ 27,549,891.15</u>

Transfer to Capital Reserve – Staff are recommending a \$5,000,000 transfer of excess General Fund fund balance to the Capital Reserve for purpose of funding current and future capital projects.

Section 115 Trust (PRSP) – Staff are recommending an additional contribution of \$2,000,000 to the City's Section 115 Trust (Pension Rate Stabilization Program). The City established this trust with PARS in 2018 for purposes of 1) maintaining local

control over assets, 2) mitigating impact of large pension cost fluctuations, 3) potential for higher investment returns than General Fund, and 4) asset diversification. The trust's assets are required to be used to pay CalPERS for related retirement costs; however, at this time, staff do not anticipate drawing down from this trust in the near future. In 2018, the City made an additional contribution of \$8,000,000 and had recommended funding \$2 million annually for five (5) years. With this strategy, the trust would accumulate sufficient funds to pay the difference between a 7% and 6.25% discount rate, or approximately \$42 million. With a total principal contribution amount of \$12 million to date, approving this \$2 million additional contribution will allow the City to be on schedule to address this funding gap by 2037.

Staffing

The Amended Budget as of December 31, 2020 has a total of 197.75 FTEs (202.75 including City Council). There are no proposed changes to staffing as part of the Mid-Year Report.

Fund Balance

The City's General Fund ended FY 2019-20 with \$74.5 million in total fund balance. As part of the FY 2020-21 Adopted Budget, the City projected ending the fiscal year with \$52 million in total fund balance. As of the First Quarter Report, the City updated its year-end projections for FY 2020-21 to \$70.5 million in total fund balance, an increase of \$18.5 million due to increases in revenues received and lower expenditures in FY 2019-20. Projected year-end fund balance as of mid-year FY 2020-21 is estimated to be \$78.1 million. This represents an increase of \$7.6 million from the first quarter projections due primarily to further increases in sales tax in the second quarter. The \$78.1 million projection includes a one-time transfer out of \$5 million to the Capital Improvement Program Reserve Fund as well as a \$2 million contribution to the Section 115 Pension Trust.

General Fund Classification of Fund Balance

CLASSIFICATION	Actuals 2018-19	Year End Projection 2019-20	Adopted Budget 2020-21	1st Quarter Year End Projection 2020-21	Mid-Year End Projection 2020-21
Non Spendable	0.45	3.45	0.45	0.44	3.44
Restricted	9.47	14.32	13.36	18.32	18.56
Committed	19.12	19.13	19.12	19.13	19.13
Assigned	1.98	3.18	3.00	3.00	3.00
Unassigned	27.90	34.43	16.04	29.56	33.99
TOTAL FUND BALANCE	58.92	74.51	51.96	70.46	78.12

To date, the City's external auditors have not completed their review of the City's financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City's auditors. City Staff does not anticipate many, if any, changes to these figures.

Per the City's one Fund Balance Policy, unassigned fund balance over \$500,000 are to be used in the following order to replenish committed fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty
2. PERS
3. Sustainability Reserve
4. Unassigned

Cash & Investments

The City's cash and investment balance as of December 31, 2020 was \$161.8 million. This comprised 12% cash, 13% LAIF, 7% Asset-backed Securities, 32% Agency Notes, 1% Municipal Bonds, 2% Negotiable CDs, 1% Supranational, 18% Corporate Notes, and 15% US Treasuries. In accordance with California Government Code section 53646(3) the City maintains the ability to meet its expenditure requirements for the next six (6) months. As a result, a certain degree of liquidity is necessary within an agency's portfolio.

Performance Measures

Updated performance measures that align with government and private industry best practices have been included in the Mid-Year Financial Report. Staff will continue to provide updates to Council on the performance measures as part of the Mid-Year Budget Report, including prior year totals and current year results through December. Attachment C represents the status of the performance measures as of Mid-Year.

Conclusion

The Mid-Year Financial Report shows the City is well-positioned to move forward. City staff recommend adjustments of \$32,626,692 in new appropriations funded by \$34,509,156 in revenues. If approved, the City's fund balance will increase by \$1,882,464.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Draft Resolution

B – Mid-Year Financial Report for Fiscal Year 2020-21

C – Mid-Year Performance Measures

D – Mid-Year Budget Adjustment Journal